

GENERAL COUNSEL'S REPORT COVER PAGE

February 22, 2017

A. Report to Agency Members

Wharton Nursing Home, Pleasant Hill (Cumberland County), TN — CN1403-006A

Per the Agency's June 22, 2016 Delegation of Authority Policy, a 29% cost over-run was approved based on the following:

- The project was complete and received a certificate of occupancy from the Tennessee Department of Health on August 4, 2016;
- Upgrades to the proposed project improved the project (upgraded kitchen equipment and IT changes related to patient care);
- Construction cost variance due to elapsed time between feasibility study project planning stage and the time the construction bids were let (18 months) and the project was completed (a total of 36 months);
- Financing costs (capitalized interest and debt service) were omitted from the original application.

The project included a construction/renovation project that relocated 31* of the existing 62 dually certified nursing home beds to an adjacent building on the campus of Uplands Village, a continuing care retirement community. The 31 beds were relocated from an existing building at 878-880 West Main Street to 55 West Lake Road which is where Wharton Nursing Home was previously located. All 62 beds are operated under the same license. The estimated project cost was \$5,100,000.00. With the cost increase, the final project cost is \$6,593,529, a difference of \$1,493,529.

*These beds are not subject to the 2013-2014 Nursing Home Bed Pool.



State of Tennessee

Health Services and Development Agency

Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

February 7, 2017

Richard Woodard, Executive Director
Uplands Village, Wharton Nursing Home
P. O. Box 168
Pleasant Hill, TN 38578

RE: Wharton Nursing Home, CN1403-006A

Dear Mr. Woodard:

The purpose of this letter is to notify you that approval has been granted for the modification (29% cost increase) described in your January 29, 2017 letter to me. This changes the final project cost from \$5,100,000 to \$6,593,529, a difference of \$1,493,529. This approval was granted pursuant to the Health Services and Development Agency's Delegation of Authority Policy enacted on June 22, 2016 which permits the executive director to grant approval or denial of modifications, changes of conditions or ownership, and extensions of certificates of need. The cost increase was approved because:

- The project was complete and received a certificate of occupancy from the Tennessee Department of Health on August 4, 2016;
- Upgrades to the proposed project improved the project (upgraded kitchen equipment and IT changes related to patient care);
- Construction cost variance due to elapsed time between feasibility study project planning stage and the time the construction bids were let (18 months) and the project was completed (a total of 36 months);
- Financing costs (capitalized interest and debt service) were omitted from the original application.

The modification was granted effective February 2, 2017 so there is no need to attend the February 22, 2017 HSDA meeting for this request.

Sincerely,

A handwritten signature in black ink that reads "Melanie M. Hill".

Melanie M. Hill
Executive Director

cc: Trent Sansing, TDH, Division of Health Statistics, Office of Policy, Planning & Assessment
Ann R. Reed, TDH, Board for Licensing Health Care Facilities



5:24:11 PM 1/30/2017

January 29, 2017

Melanie Hill, Executive Director
Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Building, 9th Floor
Nashville, TN 37243

RE: Certificate of Need No. CN 1403-006A
Wharton Nursing Home, Owner Uplands Village, Pleasant Hill, TN
Request for Substantive Amendment due to cost variance

Dear Ms. Hill:

Uplands Village, dba Wharton Nursing Home, respectfully requests the consideration and amended approval by the General Counsel, Health Services and Development Agency for the above listed Certificate of Need matter.

Attached is form HF-0055, identifying budgeted and final project costs. The variances in final project costs are further delineated in this communication.

The project scope:

- relocation of 31 of 62 dually certified ICF/SNF beds to adjacent building which was partially vacant,
- new physical therapy and wellness gyms
- dining services for residents in facility and independent living residents,
- and, renovation of administrative and support areas.

The completed project addressed all items above. During construction period, it was determined that expansion of kitchen and dining area, to better address dietary needs of the entire campus was necessary. This change order was not fully calculated, but costs related to replacement/upgrade of commercial kitchen equipment is a contributor to cost overrun.

Total Project Cost Variance:

CON Budget for construction (\$3,817,350) was projected at \$90.00 per square foot. Total CON Budget of \$5,088,550 was \$119.97/ sf.

Actual project cost for construction (4,324,314,814) is \$101.95 / sf, a 13.3% increase. Total project cost of \$6,139,815, excluding capitalized interest and Debt Service Reserve, is \$144.76 / sf. This represents a 21% increase.

Financing Costs and Fees:

The original CON application did not include or address this section of expenses.

- The final project cost inclusion of \$302,640 represents the one-year maximum debt service reserve to be established through funding as required by USDA Rural Development Agreement.
- Capitalized Interest, totaling \$139,597 represents that portion of interest related to the Wharton Nursing Home project, financed by USDA Rural Development Agency.

Uplands Village respectfully requests acknowledgement of the submission of these costs and permitted inclusion in the total project variance costs.

Construction Cost Variance:

Uplands Village believes the principle cost of variance in construction cost is due to time factor from initial feasibility to actual project, 36 months.

- Based on 06/2013 feasibility study, projected construction costs of \$3,762,720 were incorporated into CON application.
- In July, 2014, upon CON approval, construction bids were sought. Low bid was \$4,866,746. Note final change orders increased price only \$34,384, totaling \$4,901,130.
- Construction expenses incurred, but not part of the general contractor scope of work, totaled \$20,693, less than 0.5% of construction costs.

Uplands Village requests approval of contractor construction fees increased due to market conditions and project timing.

Equipment Cost Variance:

- As referenced above, upgrade to kitchen and dining furnishings
- Uplands Village sought and received a total of \$6,500,00 from USDA financing for three projects. In addition to the Wharton Nursing Home renovation project, funds were allocated for construction of an aquatic center (\$750,000) and expansion of and purchase of new I.T. technology and operating system (\$405,000). In May, 2016 Uplands sought and was granted an additional \$500,000 from USDA Rural Development for further investment in its I.T. technology program.
- These additional technology upgrades to accommodate new electronic medical records, bedside record keeping, wireless connectivity, creation of I.T. skills lab for staff and community were added/included during renovation of building.

Uplands Village requests approval of equipment cost variance \$392,372, related to I.T. and dietary enhancements incorporated into the project.

Chronology

Date	Activity	Notes
06/19/2013	Upland Design Group Architectural Feasibility Study	UDG engaged to provide facility assessment and projected cost for renovation (with new construction comparative costing). Renovation of Rehabilitation Facility: \$3,797,720 Architect Fees, Interest, Equipment and Contingency: \$1,945,280 Total: <u>\$5,743,000</u> Feasibility projected construction project at \$90.00 / square foot, based on 42,415 sf.
3/11/2014	Uplands Village (Wharton Nursing Home)	CON application submitted with project estimates of: Architectural, soft costs, site prep - \$522,015 Equipment - \$749,185 Construction - \$3,817,350 Total - <u>\$5,088,550</u> <i>(Equipment projected costs reduced \$405,000)</i>
7/23/2014	State of TN, Health Services and Development Agency	Contingent CON (1403-006) approval, dated 6/25/14 granted to Uplands Village Total - <u>\$5,100,000</u>, inclusive of CON fee
12/10/2014	Upland Design Group, Uplands Village and Denark Construction	Competitive Bids received eighteen months after original feasibility study. Bids were reviewed and project awarded to Denark Construction Low bid \$4,866,746 (as compared to total construction costs in CON application of \$3,817,350 (\$114.74 / sf) - a \$1,049,400 increase.
08/04/2016	State of TN, Health Services and Development Agency	Certificate of occupancy, project deemed complete.

Cost Factors	Original	Final	Variance	Explanation
Construction and Equipment acquired	\$5,088,550	\$6,139,817	\$1,051,267 20.7%	See additional comments regarding detail cost variances attached.
Acquisition by gift. Donation or lease		\$0	\$0	No formal donor or gifting related to project was contemplated or received.
Financing Costs and Fees	\$0	\$442,237	\$442,237 100%	By oversight, the original application, approved by HSDA (05/28/2014), did not include projected capitalized interest and Reserve for One Year's Debt Service.
Estimated Project Costs	\$5,088,550	\$6,582,054	\$1,493,504 29.4%	
CON Filing Fee	\$11,450	\$11,475 (\$3,360 due with project conclusion)	\$25 0.2%	Correct calculated fee paid at application.
Total Project Cost	\$5,100,000	\$6,593,529	\$1,493,529 29.3%	

We are very pleased with resulting facility to provide quality care to our residents and patients. While the final project costs were substantially higher (29.3%) than the original projection, we believe the expenditures were appropriate, necessary and reasonable for the final project. If you need any additional information, please contact me.

Sincerely,



Richard Woodard,
Executive Director
Uplands Village, Wharton Nursing Home
(931) 277-3518
rwoodard@uplandsvillage.com

cc: John Renner, CFO; Herschel Murner, COO; Uplands Village



State of Tennessee

Health Services and Development Agency

Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243

www.tn.gov/hsda

Phone: 615-741-2364

Fax: 615-741-9884

FINAL PROJECT REPORT

Please TYPE or PRINT legibly.

Certificate of Need No. **CN 1403-006A**

Project Name: WHARTON NURSING HOME

Owner: **UPLANDS VILLAGE**

Contact: **JOHN K RENNER (740-251-8306)**

Description: Relocation of 31 of the existing 62 beds in nursing home to an adjacent building on campus. Expansion of skilled nursing services, including therapy and gym. Relocation of administrative services.

Total Bed Complement Before Addition 62
Total Bed Complement 62

What was the Final Completion Date (opened for public use)? 08/04/2016

Was the project completed as certified? ☒ YES ☐ NO
(If not, describe any changes, deletions, and/or additions on additional sheets.)

Original		Final		
COST FACTORS			Cost Projection	Project Cost
A.	Construction and equipment acquired by purchase:			
1.	Architectural and Engineering Fees		<u>300,305</u>	<u>415,206</u>
2.	Legal, Administrative (Excluding CON Filing Fee), Consultant Fees		<u>35,000</u>	<u>156,199</u>
3.	Acquisition of Site		<u>0</u>	<u>0</u>
4.	Preparation of Site		<u>186,710</u>	<u>102,539</u>
5.	Construction Costs		<u>3,817,350</u>	<u>4,124,314</u>
6.	Contingency Fund		<u>0</u>	<u>200,000</u>
7.	Fixed Equipment (Not included in Construction Contract)		<u>749,185</u>	<u>785,823</u>
8.	Moveable Equipment (List all equipment over \$50,000)			<u>(Correction) 355,735</u>
9.	Other (Specify) _____			
	Subtotal		<u>5,088,550</u>	<u>6,139,817</u>
B.	Acquisition by gift, donation, or lease:			
1.	Facility (inclusive of building and land)			
2.	Building only			
3.	Land only			
4.	Equipment (Specify) _____			
5.	Other (Specify) _____			
	Subtotal			
C.	Financing Costs and Fees:			
1.	Interim Financing			
2.	Underwriting Costs			
3.	Reserve for One Year's Debt Service			<u>302,640</u>
4.	Other (Specify) - Capitalized Interest			<u>139,597</u>
	Subtotal			<u>442,237</u>

D.	Estimated Project Cost (A+B+C)	<u>5,088,550</u>	<u>6,582,054</u>
E.	CON Filing Fee	<u>11,450</u>	<u>11,475</u>
F.	<u>Total Estimated Project Cost (D+E)</u>	<u>5,100,000</u>	<u>6,593,529</u>

FINAL COST† \$14,835 **FINAL FILING FEE‡ \$3,360**

If the final project cost is an overrun of the estimated project cost, describe in detail all increases in final costs from those originally projected.

Capitalized interest (\$302,640) and Debt Service Reserve (\$139,597) were not included in CON application budget.

The Final Filing Fee to be assessed on any cost overrun is to be computed at the rate current at the time the project was certified. Below is the outline of the rates from January 1994 through the present.

PERIOD	FEE per \$1,000	MAXIMUM--MINIMUM	FINAL FILING FEE
January 30, 1994 through Present	\$2.25/\$1,000	\$3,000--\$45,000	\$2.25/\$1,000 Total filing fee (Initial plus final) not to exceed \$45,000.

I hereby certify that this information is true to the best of my knowledge, information, and belief, and that supplemental written notification will be filed with the Tennessee Health Services and Development Agency in the event of any change in the information given in this report.



Chief Operating Officer

1.30.17 _____
Date

HF-0055

Revised 1/05 - All forms prior to this date are obsolete.